Stanford Institute for Economic Policy Research
SIEPR
Policy Brief
Stanford Institute for Economic Policy Research

The FCC's New Television Ownership Rules

Roger G. Noll

The decision by the Federal Communications Commission (FCC) to relax its television ownership rules created a political firestorm, with overblown claims from both sides of the debate. Proponents picture the television industry as in dire straits due to competition from cable networks and the Internet, and assert enormous efficiency gains from relaxed rules. Opponents see monopolization and fear for the future of American democracy. The truth lies somewhere in between.

The History of Ownership Rules

Originally television was allocated twelve channels (VHF channels 2–13). In assigning channels, the FCC promoted "localism" — like newspapers, stations were to reflect local tastes and to report local events. To assure that stations were local, the FCC limited the power of TV signals, favored local owners in granting licenses, and ruled that no one could own more than five stations. To prevent signal interference, localism required that each city have few VHF stations, so the FCC decided that no one could own more than one channel in a city.

These policies meant that only three networks were commercially feasible. In other nations, stations are more powerful and serve entire regions rather than a single metro area. Had the FCC allowed regional stations, six or seven national networks would have been viable, as in Japan, the other major nation to allow television to develop as a private, commercial medium. Later the FCC added channels in the UHF band, but these stations attracted few viewers because they had lower signal quality, so they were not effective competitors to VHF stations.

Recognizing that most Americans viewed three or fewer networks and that American daily newspapers were shrinking in numbers, the FCC concluded that newspapers should not be allowed to own television stations because joint ownership would reduce the already limited number of independent news outlets.

June 2003

Through the years, networks and newspapers have complained about the ownership rules. Some stations sought to merge to coordinate schedules — if one station had news, the other might have a movie rather than more news. Newspapers wanted to own television stations because they perceived production synergies. Networks wanted to own affiliates primarily because most affiliates have substantial bargaining power over networks in negotiating affiliate compensation. By owning stations networks avoid haggling with their affiliates.

Persistent industry pressure caused the ownership rules gradually to be relaxed. Before the 2003 change, the FCC decided to allow one entity to own two stations (at least one UHF) in the same city and networks to own stations that reached 35 percent of all TV households, counting only half of the TV households reached by a UHF station. The FCC's new rules allow one entity to own three stations in the same city and increase the coverage limit to 45 percent (still halving the UHF count). Because the FCC did not force all newspapers to divest their local television station, some cross-ownership always was present, but the FCC's new rules eliminate most cross-ownership restrictions. Thus, the new rules allow a newspaper-book-magazine conglomerate (like Washington Post/Newsweek) to own a network and UHF affiliates that reach 90 percent of viewers, including three affiliates in the largest cities. The prospect for such national media conglomerates animates opposition to the new FCC rules.

The Core Issues About Media Ownership

The debate about television ownership rules involves two distinct aspects of competition: economic and political. The first is much easier to analyze than the second.

Economic Competition

Television has two products: advertising and viewers. Most TV revenues still come from advertising, although many cable networks charge for viewing. The television industry argues that it competes with other entertainment media (newspapers, radio, magazines, Internet, etc.) for both viewers and advertising. In reality, television is sufficiently distinct from other media that, for competitive analysis, its products are in a distinct video market. Nevertheless, competition in television is intense. About 85 percent of television households subscribe to some form of multi-channel video program distribution (MVPD) system (FCC, 2002) — two-thirds cable and one-sixth broadcast satellites. Digital cable and satellites have all but eliminated spectrum scarcity as an entry barrier for networks, and today scores of national networks compete with TV stations for viewers and advertising. Television stations now account for slightly more than half of all viewing and slightly less than 60 percent of prime-time viewing. Each major network accounts for around 10 percent.

These numbers imply that market concentration in television is simply too low to support the economic argument that competition for viewers and advertisers is inadequate. Nevertheless, growing competition in broadcast outlets and MVPD systems is irrelevant to the case for most ownership rules. Recall that television has little competitive overlap with newspapers, so that the economic case against newspaper/ television cross-ownership never was strong. Only more high-quality television offers competition against over-the-air networks; cable and satellites are the vehicles to make this happen.

Moreover, combining the journalistic functions of newspapers and TV stations has a plausible economic justification. Both newspapers and television have "public goods" characteristics in that the cost of content need only be incurred once, no matter how many people see it. Because audiences for newspapers and television are substantially non-overlapping, news information that is collected for use by one can be used by the other at little extra cost. Thus, combining newspapers and TV news has potentially significant efficiency advantages for more in-depth coverage at a lower cost per customer. From the perspective of media economics, cross-media ownership has no disadvantages and a plausible advantage.

Likewise, network ownership of affiliates does not affect competition in the markets for viewers or advertisers because a national network is a supplier, not a competitor, of its affiliates. Changing the ownership of a station changes neither its audience nor its minutes of advertising.

Some adverse commentary about network ownership of affiliates focuses on competition in the program market. Network affiliates can pre-empt networks to show programs that they produce or that are acquired from others. If affiliates broadcast more network fare, they will broadcast fewer programs aimed explicitly at local audiences and reduce the overall demand for program content.

This argument has led to other regulations. One is the "prime time access rule," which limits the number of hours per week that the major networks can offer programs to affiliates, and explains why network programs are not broadcast between 7 and 8 p.m. except on Sundays. Denying networks the right to own affiliates is another means to prevent network programs from occupying all of the time of network affiliates.

These rules all work against the overwhelming economic logic of the broadcast industry. Because television is a form of "public good," cost per viewer is minimized if a program is shown to the largest possible audience. Competition for a large national audience causes program producers to spend more on program quality (script, stars, production personnel) than would be the case if every station were required to produce its own programming independently of other stations. Hence, rules that seek to increase "competition" in program production have uniformly failed to increase locally produced programs. The major producers of programs remain Hollywood studios and networks, and nearly all programs in the 7–8 p.m. period are nationally syndicated mass-entertainment shows. Many are network reruns — in 2002-03, the leading syndicated program was Seinfeld reruns.

The only locally produced programs that occupy a significant share of broadcast time are news and sports. Stations broadcast these programs because they are profitable, not out of a sense of public duty. Even network-owned local stations produce local news and sports. Thus, the ownership of stations has no effect on the extent of local programming.

Political Competition

The more serious concern about media ownership pertains to its relationship to politics. Democratic political systems rely on political competition and the closely related idea of deliberative democracy. Political competition involves multiple candidates for office. Deliberative democracy is the more demanding requirement — a close cousin of the "perfect information" concept that underpins the economic theory of the beneficial effect of market competition.[1] The effectiveness of democracy for implementing citizen policy preferences turns on the extent to which the electorate is informed. Because a voter has almost no influence on election outcomes or government policy decisions, citizens have little incentive to spend much time, effort and money on becoming informed. Instead, they are likely to become informed as passive recipients of information that is provided by the mass media.

The requirements for deliberative democracy raise two separate concerns about media ownership. The first refers to the number of information sources. The second pertains to bias: If a source of information has interest-based and preference-based distortions, a limited number of sources may not provide enough information to enable citizens to detect all biases.

Whereas these issues surely are important, their connection to TV ownership rules is far from clear. Deliberative democracy may require more independent sources of information than are required for economic competition. Politics involves issues that threaten many different economic interests, plus numerous issues over which citizens have strong ideological differences.

---

[1] *For an insightful analysis of the parallel between market competition and competition in ideas, see Owen (1976).*

As a result, the five or six competitors that economists believe are necessary to produce a robustly competitive market may be insufficient to produce competition in the provision of politically relevant information.

Unfortunately, we have no political counterpart to the standard measures of economic competition (concentration of sales among a few firms) that are used in antitrust enforcement. In its new rules, the FCC proposes a " diversity index" based on the number of sources of local information, with different media weighted by the proportion of the population that claims to rely on that medium as its primary source of information. Unlike market concentration, there is no basis in theory or empirical research to relate the FCC's index to the extent to which voters are informed or to the robustness of political competition.

The concern about political competition has different applications for newspaper and network ownership rules. The fact that newspapers and television do not compete economically does not mean that they do not compete politically. Content from one medium is transmitted to citizens who are not its customers through personal conversations and spillovers into the content of other media. Thus, the FCC probably is correct to include newspapers and television in a diversity index, although why the media should be weighted by the extent to which citizens make use of them remains a mystery.

Even if newspapers and television compete as sources of political information, cross-media ownership is unlikely to matter in national politics because other media products, notably national cable news networks plus magazines and books, also provide information on national political issues. Whereas mega-combinations of multimedia enterprises are a valid concern if a handful of companies own nearly all important entities in all media, the acquisition of a TV station by a local newspaper is a tiny piece of this much bigger issue.

For local news, the number of independent sources has not been enhanced much by MVPD channels. Most cities have a single metropolitan daily, and, for larger cities, suburban papers with largely non-overlapping circulation areas. While some cities have several UHF stations, few provide local news. Even for network affiliates, local news has relatively little local political content. In most cases, local TV news focuses on crime, sports and weather, not local policy issues that are covered extensively by newspapers. Having some of the richer local news content of newspapers spill over into television, which is a possible consequence of the public goods aspect of journalism, could offset the reduction in the number of independent voices. In any case, because empirical research on the effect of cross-media ownership on local television news has not demonstrated an effect, we have no basis for concluding that this issue should affect ownership rules.

For network ownership of affiliates, two arguments support an adverse effect on political competition. The first is that networks, more than local affiliates, are part of large entertainment conglomerates that have much at stake in mass media policies such as copyright protection, pornography law and television ownership rules. If some affiliates are free of these interests, they may be more likely to cover them in an unbiased manner. The second is something akin to the cancellation of errors: More voices across cities tend to cancel out biases in each.

The bite of these arguments is weakened by the reality that local television stations give little serious attention to news coverage in comparison to both national over-the-air networks and MVPD news channels. Regardless of station ownership, local news is mostly local. All affiliates rely primarily on networks for national news programs, so the biases of networks on, say, the strength of the copyright in Mickey Mouse (an issue of deep concern to the Disney Corporation, which owns ABC) is not likely to be offset in the local news on a fiercely independent ABC affiliate.

Conclusions

The FCC's history of ownership rules in television broadcasting arises from its long commitment to localism. Regardless of the merits of localism as an ideal, it flies against the overwhelming practical realities of the television industry. Television is among the least suitable communications media for success in producing genuinely local products. Expensive programs are valuable to viewers, and scarcity in the number of TV stations only enhances the strong economic push to make television a mass communications medium of national scope — as it is everywhere in the world.

All things considered, the FCC's television ownership rules do not matter much, and never have. Networks and newspapers want to buy television stations for reasons that have nothing to do with economic competition and deliberative democracy. But businesses rarely seek to further social goals, and the fact that they do not is by itself an insufficient reason to regulate them. From the perspective of television viewers, advertisers and the program content industry, these rules are not worth fighting for or even worrying much about.

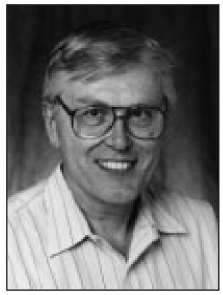
References

Federal Communications Commission (2002). *Ninth Annual Report: Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming,* December 31. MB Docket No. 02-145. Available at www.fcc.gov/mb/csrptpg.html.

Noll, Roger G., Merton J. Peck and John J. McGowan (1973). *Economic Aspects of Television Regulation.* Brookings Institution.

Owen, Bruce (1976). *Economics and Freedom of Expression.* Ballinger Books.

About the Author



Roger Noll is the director of the Center for Research on Economic Development and Policy Reform and the Morris M. Doyle Centennial Professor (also Director, Public Policy Program, and Professor by Courtesy, Department of Political Science, International Policy Studies Program, and Graduate School of Business) at Stanford University. In addition he is a Senior Fellow at the Stanford Institute for Economic Policy Research.

Noll's research interests are broad, encompassing public policies geared toward business, telecommunications, political analysis of the judicial system, technology policy and economics of sports. He has written and authored numerous papers and books and is on many boards including the AEA and the California Council on Science and Technology.

Noll received his Ph.D. from Harvard and his B.S. California Institute of Technology.

The Stanford Institute for Economic Policy Research (SIEPR) conducts research on important economic policy issues facing the United States and other countries. SIEPR's goal is to inform policy makers and to influence their decisions with long-term policy solutions.

With this goal in mind SIEPR policy briefs are meant to inform and summarize important research by SIEPR faculty. Selecting a different economic topic each month, SIEPR will bring you up-to-date information and analysis on the issues involved.

SIEPR Policy Briefs reflect the views of the author. SIEPR is a non-partisan institute and does not take a stand on any issue.

For additional copies, please see SIEPR website at: http://SIEPR.stanford.edu

SIEPR ***Policy Brief***

A publication of the
Stanford Institute for Economic Policy Research
Stanford University
579 Serra Mall at Galvez Street
Stanford, CA 94305
MC 6015

NON-PROFIT
ORG.
U.S. POSTAGE
PAID
PALO ALTO, CA
PERMIT NO. 28